

Message Text

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ACTION TRSE-00

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR NACHMANOFF/BRADFORD

E.O. 11652: N/A

TAGS: EAID, EFIN

SUBJECT: REVIEW OF CRITERIA FOR LENDING FROM ASIAN
DEVELOPMENT FUND (ADF)

REF: (A) TREASURY 77-124 (NOTAL), (B) MANILA 13873 (NOTAL),
(C) MANILA 13086 (NOTAL)

1. AT SEPTEMBER 14 MEETING OF ADB BOARD OF DIRECTORS ON
ADF CRITERIA, USADB BELIEVES IT ACCOMPLISHED PRINCIPAL U.S.
OBJECTIVES IN THAT: (A) IT KEPT OPEN POSSIBILITY THAT CON-
CESSIONAL FUNDS FOR MARGINALLY ELIGIBLE COUNTRIES (INDONESIA,
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PHILIPPINES AND THAILAND) MAY BE MADE AVAILABLE IN 1978; (B)
IT MADE CRYSTAL CLEAR THAT U.S. EXPECTS THAT FUNDS WILL BE
AVAILABLE TO THESE THREE COUNTRIES AT LEAST IN PERIOD OF THE
SECOND REPLENISHMENT (ADF III); AND (C) THIS WAS ACCOMPLISHED
WITH MINIMUM OF ACrimONY, AND PRESIDENT YOSHIDA COULD FEEL
HE WAS BEING SUPPORTED BY BOARD OF DIRECTORS (AND
PARTICULARLY BY UNITED STATES).

2. BASICALLY, THREE DONOR COUNTRIES -- AUSTRALIA, JAPAN, AND UNITED STATES -- SUPPORTED A MORE FLEXIBLE ARRANGEMENT THAN THAT PROPOSED BY BANK MANAGEMENT, AND WHICH WOULD THEREFORE PERMIT ADF LENDING TO marginally ELIGIBLE COUNTRIES. AUSTRALIA TOOK STRONGEST POSITION, ADVOCATING THAT BOARD OF DIRECTORS SHOULD DECIDE NOW TO EXTEND CREDITS OUT OF 1978 ADF FUNDS FOR THESE COUNTRIES. JAPAN, WHICH, IN PRINCIPLE, ALSO FAVORS BROADENING OF LENDING CRITERIA TO PERMIT THIS, TOOK RELATIVELY SOFT POSITION IN BOARD MEETING, WHICH USADB LATER LEARNED WAS DUE TO STRONG PERSONAL INTERVENTION OF PRESIDENT. YOSHIDA WAS CLEARLY CONCERNED THAT A BRUISING BATTLE ON THIS ISSUE WOULD COMPLICATE, IF NOT ENDANGER, POSSIBLE CONTRIBUTIONS BY EUROPEANS TO ADF III, AND ALL EUROPEAN COUNTRIES PLUS CANADA DID IN FACT SUPPORT STATUS QUO. U.S. EXECUTIVE DIRECTOR STRONGLY SUPPORTED PRINCIPLE OF EXTENDING ADF LOANS TO THE THREE SOUTHEAST ASIAN NATIONS CONCERNED, AND THE IN CONJUNCTION WITH NEW ZEALAND ALTERNATE (WHO ALSO REPRESENTED INDONESIA) PROPOSED COMPROMISE WHICH CONCEIVABLY WOULD PERMIT ADF LENDING TO THESE marginally ELIGIBLES IN LATTER PART OF 1978. ALL OTHERS FELL IN LINE AFTER CANADIAN ED BLESSED THIS COMPROMISE PROPOSAL.

3. BOARD AGREED TO REVISE PARA. 40 (F) OF ADB DOC. R87-77 AS FOLLOWS, QUOTE: ALTHOUGH THE RESOURCE CONSTRAINT IN LIMITED OFFICIAL USE

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ADF IS SUCH THAT ADF LOANS TO THE marginally ELIGIBLE DMC'S MAY NOT BE FEASIBLE DURING THE CURRENT ADF REPLENISHMENT PERIOD, A REVIEW BE UNDERTAKEN BY MID-YEAR 1978 TAKING INTO ACCOUNT THE AVAILABILITY OF FUNDS IN 1978 AND THE PROGRESS OF DISCUSSIONS ON THE SCALE OF THE SECOND REPLENISHMENT TO DETERMINE WHETHER ACCESS TO ADF CAN BE MADE AVAILABLE TO THE marginally ELIGIBLE COUNTRIES IN RELATIVELY MODEST AMOUNTS AND TO CONSIDER THE TYPE OF PROJECTS THAT MAY BE SO FINANCED; AS A COROLLARY, AN ANNUAL REVIEW (COMMENCING WITH THE ABOVE REVIEW) MAY BE UNDERTAKEN TO DETERMINE WHICH OF THE PRESENT "marginally ELIGIBLE" COUNTRIES SHOULD CONTINUE TO BE IN THAT CATEGORY. UNQUOTE. USADB BELIEVES KEY ELEMENT IN WHETHER EXCHANGE RATE VARIATIONS WILL ENABLE ADF TO LEND AS MUCH AS \$350 MILLION IN 1978 AS NOW APPEARS REASONABLY LIKELY. IN THIS EVENTUALITY, THERE COULD BE AS MUCH AS \$50 MILLION AVAILABLE FOR marginally ELIGIBLE COUNTRIES IN THE EVENT THAT U.S., JAPAN AND AUSTRALIA STRONGLY SUPPORTED SUCH USAGEM
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